

**Minutes of Meeting**  
**Health Services Council**  
**Project Review Committee-I**

**DATE: 7 March 2006**

**TIME: 2:00 PM**

**LOCATION: Health Policy Forum**

**ATTENDANCE:**

**Committee I: Present: Victoria Almeida, Esq, (Vice Chair), Edward F. Almon, John W. Flynn, Robert S.L. Kinder, MD, Richard Lepine, Robert J. Quigley, DC, (Chair), Robert Whiteside**

**Not Present: Joseph V. Centofanti, MD, John Kiemig, Robert Ricci, John Young**

**Excused Absence: Robert L. Bernstein**

**Other Members: Present: Larry Ross**

**Staff: Valentina D. Adamova, Michael K. Dexter, Joseph G. Miller, Esq., Andrea Therrien (Intern)**

**Public: (see attached)**

## **1. Call to Order, Approval of Minutes, Conflict of Interest Forms and Time Extension for the Minutes Availability**

**The meeting was called to order at 2:05 PM. The minutes of 10 and 17 January 2006 Project Review Committee-I meetings were approved as amended. The Chairman requested a motion for the extension of time for the availability of minutes pursuant to the Open Meetings Act. A motion was made, seconded and passed by seven in favor and none opposed (7-0) that the availability of the minutes for this meeting be extended beyond the time frame provided for under the Open Meetings Act. Those members voting in favor were: Almeida, Almon, Flynn, Kinder, Lepine, Quigley, Whiteside.**

## **2. General Order of Business**

**Applications of CPL (Heatherwood) LLC and CPL (South County Nursing) LLC [subsidiaries of CPL Long Term Care, Inc. and RRR REIT] for a change in effective control of Heatherwood Nursing and Subacute Center, Inc. d/b/a Heatherwood Nursing & Rehabilitation Center at 398 Bellevue Avenue in Newport and change in effective control of South County Nursing and Subacute Center, Inc. d/b/a South County Nursing & Rehabilitation Center at 790 Oak Hill Road in North Kingstown. Staff provided a memo with a summary of the applications.**

**Mr. Zubiago introduced the applicant and proceeded with a presentation before the committee. With regards to the financing, the applicant stated that the line of credit that would provide the equity is from the Canadian parent company RRR. Discussion ensued regarding ownership and whether the line of credit is equity or debt. The applicant stated that the facilities would not be liable to the parent company for its contribution of equity via the line of credit, which amounts to 20% of the purchase price.**

**Mr. Flynn expressed concern whether the proposed financing plan was in compliance with the regulations. Staff asked Mr. Zubiago to clarify the issue by explaining the response to Question #26 in the application. The applicant stated that the equity portion will come from the parent company, either by use of the line of credit or prior public offerings. Mr. Dexter asked when the decision to fund the equity either by the line of credit or by capital already raised would be made. The applicant responded that the funds have already been set aside.**

**The Committee had questions regarding the definition of equity, and if the equity provided by RRR is debt. A member noted that when an entity has invested actual money, it has an incentive to stay in business because it has a stake in the operation. The applicant replied that the funds that RRR raised in public markets is entity. The major concern of the Committee was that CPL has not made the**

decision as to how they will fund the equity. It was noted that the entire assets of RRR are leveraged at less than 60%, and they have a 40% equity stake in all of their assets.

The Chairman stated that he would be more comfortable with establishing escrow accounts so that 20% of equity or commitment to the project (in cash or stocks) is in the state of Rhode Island. The primary concern of the committee was that if RRR were to experience financial troubles and the \$10 million that was funding the project was not protected, then Rhode Island operations would become involved with RRR's debt issues. The applicant told the committee that if RRR were to experience financial difficulties, they would not be able to go to the two CPL companies for money.

The applicant stated that Mr. Woods, the current owner, would receive about \$4 million cash. The applicant will assume the mortgages on the two properties and no strings will be attached. There is also a 5-year promissory note payable to Mr. Woods for \$1,250,000 (payments of \$250,000 a year interest paid) and a \$300,000 loan over 28 months. These notes will be guaranteed by RRR. Staff expressed concern that financing was not usually done this way. To the question about the \$20 million purchase price, the applicant responded that it was negotiated.

Mr. Dexter mentioned that the Department received information regarding the CPL facilities in 4 of the 8 states where they existed and

that there were some difficulties in Vermont. The applicant responded that they were in full compliance in their facilities after follow-up and that one of the facilities went through a change in administrator. Staff noted that they are waiting for a response from the remaining 4 states. With regards to Canadian facilities, the applicant stated they are well run and are largest nursing home operator in the country. The Chairman requested that the applicant to provide documentation to this effect. The Chairman noted that he was not satisfied with the financial arrangement proposed by the applicant and suggested that they meet with staff.

Ms. Almeida requested that the applicant provide a brief summary that explains what they expect their closing documents to include. Mr. Lepine asked the applicant about a criminal assault situation at South County Nursing Home. He also asked if there was and pending or existing litigation. The applicant responded that they had one claim that is being reviewed by their insurance company and that there would be no liability to any of the assets of the corporation.

The next item on the agenda was the application of South County Hospital for a Certificate of Need to construct a three-story facility to house 60 replacement beds.

The applicant began with an overview of South County Hospital, its financial situation, and a made a presentation. The applicant

addressed questions regarding the endowment and its control over the hospital and was asked to provide a copy of the By-Laws from 1999 before they were changed. It was noted that the endowment has \$35 million of which \$28 million is unrestricted.

The Chairman asked if the proposed construction would interfere with patient care. The applicant responded that there would be noise disruption and that precautions would be taken to prevent infections due to the dust that will be produced and that the biggest impact will be on parking.

Mr. Ross asked about the orthopedic unit that was mentioned in the applicant's presentation. The applicant stated that the patients are currently cared for in Borda 1 and the women's wing and that as part of the master plan there will be a construction of a 10-bed inpatient unit on Borda 2.

Mr. Flynn asked for clarification regarding operating expenses of the project. He also stated that it did not appear that there is a need for any additional beds. The applicant stated that there is an issue with specialty bed capacity. The applicant referenced the SHAPE study and that there are bed availability issues during the summer. The applicant discussed population growth and that the majority of the increasing population is families past childbearing age but not yet at retirement and an increase in the number of people over 65.

To question of the type of patients seen in the summer, the applicant responded that it includes combination of fractures, lacerations, and cardiac patients. Mr. Ross requested information regarding occupancy rates by type of category to analyze seasonal differences. He also requested the applicant to address the reason why they decided to create all private rooms. The applicant responded that they did not see any therapeutic value of having semi-private rooms, that recent technology also makes it difficult for providers to assist patients in semi-private rooms and that private rooms increase infection control. With regards to financing, the applicant stated that they also have a line of credit up to \$3 million to tide over cash issues.

The next item on the agenda was the application of South County Hospital for a Certificate of Need to Establish a Diagnostic Cardiac Catheterization Service. The applicant made a presentation to the Committee.

A member noted that Landmark Hospital's proposal was opposed by Rhode Island Hospital ("RIH") and Miriam Hospital regarding patient having to be transported if something was found during the procedure to another hospital equipped to hold those situations. The applicant responded it wants to treat patients that have to be transferred because of scheduling conflicts of the cardiologists who have to travel between hospitals to perform procedures at other

**locations.**

**The Chairman asked the applicant how many procedures the cardiologists have performed on South County residents at RIH. The applicant responded that there have been 300 procedures performed on South County residents and more that could use the service. Staff asked if any of those 300 patients are patients treated at RIH because there is on-site backup and that South County would not be able to treat. The applicant responded that there will be high risk patients that will still be done at RIH with the expectation that they will need another procedure. The applicant stated that some of the 300 patients will still be treated at RIH. The applicant stated that it will have two invasive cardiologists to perform these procedures at South County Hospital. It was noted that patients prefer to travel to Providence for this service rather than Westerly Hospital.**

**Mr. Ross asked what percent of patients would potential need to be transferred to another hospital if a problem is discovered during a cath. The applicant responded that 30-40% of those patients may need bypass surgery. The cardiologists can identify acutely ill patients ahead of time so that they are able to go directly to RIH.**

**There being no further business the meeting was adjourned at 4:30 PM.**



**Respectfully submitted,**

**Valentina D. Adamova**